BLACKROCK GLOBAL ALLOCATION FUND (AUST)

BLACKROCK®

FUND UPDATE **31 March 2021**

Investment Performance (%)

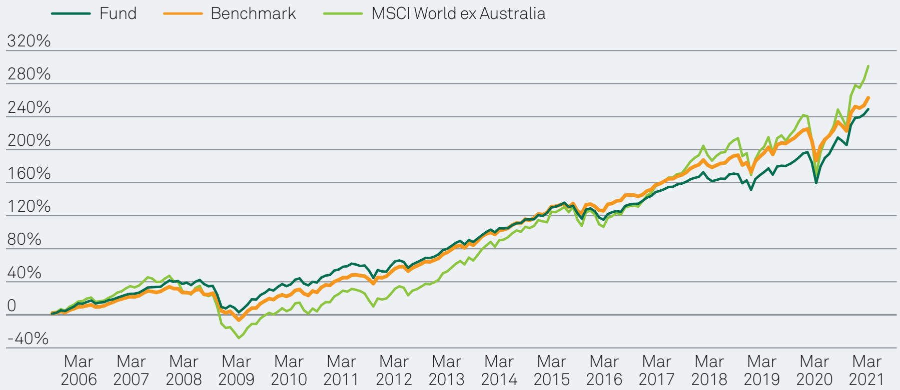
		1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Inc
Return	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	1.87	3.09	3.09	34.40	9.79	9.30	8.26
	Internal Benchmark	2.65	3.02	3.02	26.45	9.06	9.16	8.52
	MSCI World ex Australia Hedged in AUD (For comparative purposes)	4.26	6.15	6.15	48.70	12.06	13.16	-
Risk^	BlackRock Global Allocation Fund (Aust) (D Class) (Net of Fees)	-	-	-	-	10.84	8.70	8.95
	MSCI World ex Australia Hedged in AUD* (For comparative purposes)	-	-	-	-	17.50	14.05	14.47

^ Risk is measured as standard deviation of monthly returns, annualised.

*Fund inception: 27/06/2005. The Diversified Benchmark return from 30 June 2014 to 30 September 2016 has been updated as at 26th September 2016 following a re-statement of the FTSE World ex US AUD Hedged Index, which makes up 0.24% of the diversified benchmark allocation, by FTSE. The Diversified Benchmark return for this period had previously been overstated by 0.38%. Despite the update of the return for this period, there was no change or impact to the fund performance or unit pricing for the fund, which was unaffected by the data previously provided by FTSE and continued to be correctly stated during this period.

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Gross returns are provided for products offered to wholesale clients only who may be subject to differential fees. Please refer to the Fund's product disclosure statement for more information. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses and does not include the effect of taxes. Refer to Fund details section for actual inception dates. The benchmark is a diversified allocation of 36% S&P 500 Index (Total Return hedged in AUD), 24% FTSE World Index ex US Index (Total Return hedged in AUD), 24% Merrill Lynch US Government Index (0-5 yr Treasury hedged in AUD) and 16% Citigroup World ex US Government Bond Index (hedged in AUD).

Cumulative Performance to 31 March 2021



Current Portfolio Strategy

- Global equity markets posted a positive return in March, on the back of the strong and rapid recovery from the COVID-19 pandemic, as evidenced by strong U.S. economic data, coupled with the expectation of another substantial stimulus package from Washington D.C. Dispersion across equities also picked up from significant sector rotation as investor sentiment flipped between cyclical, reopening trades to secular growth, stay at home trades. Market expectations of a rapidly improving economy continued to pressure the long end of the U.S. Treasury curve, causing the 10-year rate to back- up to 1.65%. While we do not expect a melt-up in yields from here, we do believe that real rates will continue to normalize with the significant pick-up in economic growth that is expected in the second half of 2021. It is also important to note that real rates remain historically low, representing only the 2nd time in 20 years where they are negative. As the economy reopens and growth continues

Monthly key portfolio themes

- 64% equities, 19% fixed income, 16% cash, 1% Precious Metal.
- **Regions:**
  Overweight: Europe, U.S., China,

  Underweight: Japan, Australia, Canada, and Latin America

  Sectors:
  Overweight: Materials, Consumer Discretionary, Industrials, Health Care, Communication Services, and Information Technology

  Underweight: Consumer Staples and Real Estate
- Given the current environment, we increased exposure to cash equivalents as we believe it to be more efficient means to hedge equity risk compared to short- and intermediate-term U.S. Treasuries. We also hold cash as a source of funding as we look to opportunistically deploy capital.

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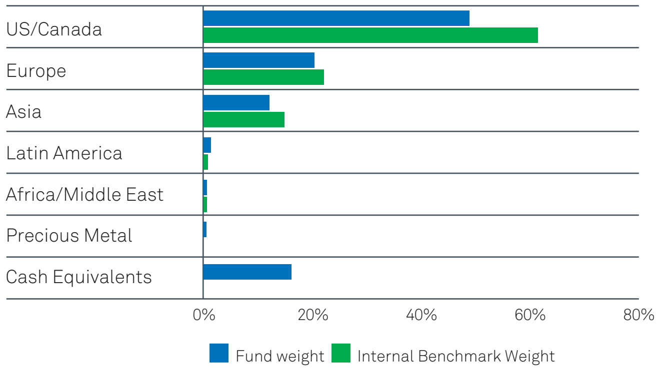
- Market Insights & Commentary
- Fund Performance
- Unit Prices

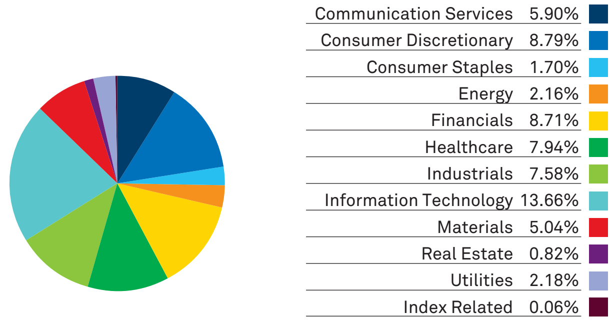
to accelerate, a return to positive real rates should be viewed as a favourable sign.

- Within the Global Allocation Fund, we believe markets are transitioning into a new regime characterized by a recognition of the potential for robust economic growth and broader implications for the eventual withdrawal of ongoing liquidity support. The combination of increased mobility, unprecedented fiscal stimulus, and very accommodative monetary policy has the potential to produce historic economic growth which will drive corporate revenues and earnings significantly higher. Rapidly accelerating economic growth is likely to lead to a continued rise in real interest rates. This outcome alone is unlikely to derail the current bull market, however, what is currently unclear is how rapidly future rate increases may occur and what actions the Fed might take in response to an unwelcome spike in rates - particularly at the long-end of the U.S. Treasury curve. As such, we moderately reduced our overweight to equities over the month, with a greater portion of the fund's overall risk allocated to idiosyncratic names. Within equities, we are emphasizing growth/quality paired with cyclical exposure, with a preference for stocks and segments with above average profitability and earnings consistency. Within fixed income, consistent with our view of an improving economy, we remain underweight developed market government bonds. We are significantly underweight duration relative to our benchmark. We maintain exposure to credit recently rotating some high yield exposure toward long-duration investment grade and to select emerging market sovereign debt as additional sources of yield. In line with the fund's risk aware mandate, we look to balance exposure to risk assets with portfolio hedges, with an increasing reliance on cash and derivatives given diminished efficacy of traditional hedges such as duration and gold in the current environment.
- Positioning at the sector level reflects a barbell approach with exposure to cyclical companies that would benefit from a sustained economic recovery in the near-term coupled with secular growth companies positioned to benefit from long-term trends associated with the evolution of technology adoption.
- We reduced our overweight to technology to a more neutral stance to help mitigate exposure to rising rates. While we remain positive on the sector over the long-term, we pared back select semiconductor and hardware companies where we believe revenue multiples had become stretched following strong Q4 earnings.
- In line with our desire to lean into cyclical expression given the expectation for robust economic growth in the coming months, we added to select companies across energy, materials and financials.
- Outside of traditional cyclical exposure, we have reoriented sector exposure to be closer tied to spending. This would include an emphasis on payment companies within technology as well as direct consumer plays within home builders and select apparel in consumer discretionary.
- We remain underweight defensive sectors, such as consumer staples and real estate, whose low growth rates and relatively high dividends could cause them to underperform the broader market if the global economy accelerates rapidly and bond yields continue to rise.
- Within the derivatives space, we look for opportunities in the options market to trade volatility to augment our core equity positions and manage the portfolio's risk/return profile. In line with our view that markets will be range-bound in the near- term, we reduced our exposure to index options to manage the fund's beta.
- Over the month, portfolio duration was further reduced from 1.4 years to -0.2 years, a significant underweight relative to a benchmark duration of 2.70 years, as we believe that the possibility of additional yield curve steepening limits the desirability of holding longer-dated U.S. Treasuries for hedging purposes.
- We remain significantly underweight developed market sovereign bonds, with ~ 2.0% invested in nominal U.S. Treasuries (one of the

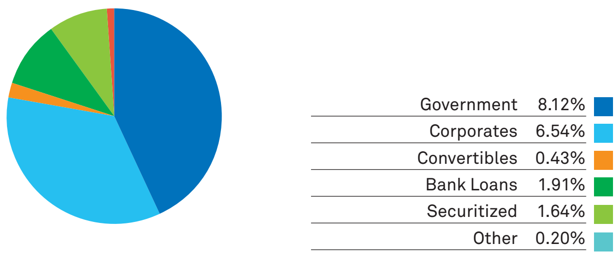
Regional Exposure as of month end



Equity Sectors as of month end (64.54%)



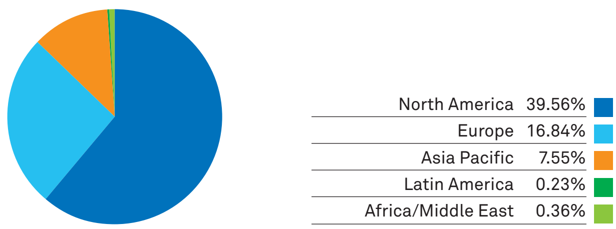
Fixed Income Sectors as of month end (18.84%)



Cash as of month end (16.12%)

Precious Metals (0.50%)

Equity Regional Exposures as of month end



fund's lowest exposures to Treasuries). Outside of the U.S., the Fund has ~3.0% invested across Italy, Japan, and Australia with a preference for countries which we believe will lag the U.S. in the eventual removal of accommodative monetary policy.

- Given the significant underweight to U.S. rates, the team used interest rate swaptions as a partial hedge to positioning with exposure to receivers at the back end of the yield curve balanced by payers in the middle of the curve. While we believe that rates are likely headed higher from here (and positioned accordingly), this strategy would help protect against a materially flatter yield curve should a risk-off environment materialize.
- With inflation expectations at 2.5% today, in our opinion, there is limited room for them to go meaningfully higher. As a result, we have minimal exposure to U.S. TIPS with upward inflation pressure tempered by long-term disinflationary forces, such as an aging demographic trend and technological innovations.
- We continue to build yield into the portfolio via spread assets with a preference for a diversified basket of credit, EM sovereigns and securitized debt. The aggregate exposure of these off-benchmark fixed income asset classes currently exceeds ~10% of AUM and helps to differentiate Global Allocation from more traditional "60/40" portfolios
- Within credit, we pared back our exposure to high yield, as we feel valuations have become extended given elevated risk premium from increased volatility in the risk-free rate and spread compression. We have rotated some of this exposure to long-duration U.S. investment grade bonds where we find the spreads more attractive relative to risk.
- Within emerging markets, exposure remains diversified with an emphasis on select countries, notably China, and across Latin America which we believe to offer stability with the potential for yield or spread compression.
- We reduced exposure to gold-related securities over the month given our expectation for strong economic growth, an increase in real interest rates, and relative stability of the USD, and rotated into other portfolio hedges such as cash and derivatives that we feel provide ample diversification benefits in the current environment.
- Against a backdrop of heightened volatility, increased demand for traditional portfolio hedges, we increased exposure to the U.S. Dollar, taking it back to a modest overweight of 66%. We are also short select currencies that have material exposure to global commodities and/or have a higher beta to the market such as the Australian Dollar and select Emerging Market currencies. Our view is that in a "risk off" environment, many of these currencies are likely to underperform certain DM currencies such as the USD and JPY. This tactical management of currency is another example of the fund's flexible approach to managing portfolio hedges.

About the Fund

What is the objective of the fund?

- The objective of the Fund is to maximise total investment returns while managing risk and the Fund is generally diversified across markets, industries and issuers.
- The types of securities and markets the Fund invests in will vary in response to changing market conditions and economic trends. For example, the Fund may be substantially invested in Japanese shares when they appear undervalued relative to other world share markets. Alternatively greater emphasis may be placed on fixed income securities when the risk of owning shares appears significant. With this approach, the Global Allocation Team strives to achieve attractive total returns, while spreading the risks associated with investing in only one asset class or market.

Who should consider the Fund?

- The Fund should be considered by investors seeking a single fund that offers broad global exposure, or an investment that is not constrained by MSCI benchmarks.
- The Fund is a "one stop shop". Investors will benefit from the active security selection, which aims to take advantage of global investment opportunities wherever and whenever they arise.

Fund Details

BlackRock Global Allocation Fund (Aust)	
Inception Date	8 June 2005
Fund Size	621 mil
Management Fee	0.20% p.a.
Performance Fee	12.50%

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